

State of Alaska FY2010 Governor's Operating Budget

Department of Revenue

Department of Revenue

Mission

The mission of the Department of Revenue is to collect, distribute and invest funds for public purposes.

Core Services

- Coordination, development and promotion of programs for collection and investment of public funds
- Formulation of specific recurring revenue sources
- Provide controls and enforcement for the collection, investment and payment of funds for the following: Tax Division, Treasury Division, Permanent Fund Dividend Division, and Child Support Services Division
- Provide administrative support for the following authorities, boards, and corporations: Alaska Retirement Management Board; Alaska Mental Health Trust Authority; Office of the Long-term Care Ombudsman; Alaska Municipal Bond Bank Authority; Alaska Natural Gas Development Authority; Alaska Housing Finance Corporation; and Alaska Permanent Fund Corporation.

End Result	Strategies to Achieve End Result
<p>A: Maximize compliance with current tax and gaming statutes.</p> <p><u>Target #1:</u> Percentage of taxes collected compared to taxes due between 92% and 98%.</p> <p><u>Status #1:</u> Taxes collected compared to taxes due has been between 96% and 105% in the past five years and in FY2008 was 98.5%. This measure is not indicative of our compliance efforts as it is skewed by the fact that our largest taxpayers are paying their taxes, but smaller taxpayers may not be. This measure will be changed in FY2009 to better reflect the compliance of our entire taxpayer base across all tax types.</p> <p><u>Target #2:</u> 90% of existing taxpayers file their tax returns and make tax payments timely. This is a new target; data will be reported at the end of FY2009.</p> <p><u>Status #2:</u> Not Available</p>	<p>A1: Increase tax audit coverage (audit activities improve compliance and revenue).</p> <p><u>Target #1:</u> Open 20 new audit cases (taxpayers that have not been audited by us in the prior five years).</p> <p><u>Status #1:</u> Seventy-eight new audit cases were opened in FY2008 due to an increase in audit staff. These audits will be worked throughout FY2009 in addition to maintaining a target of 20 new audits for that year.</p> <p>A2: Increase voluntary tax compliance from identifying non-filers.</p> <p><u>Target #1:</u> Find 30 non-filers through compliance work.</p> <p><u>Status #1:</u> Approximately 309 new taxpayers were identified in FY2008. Most of the new taxpayers were identified through compliance work in the mining license tax. In FY2009 our focus will be on the number of compliance activities conducted versus the number of new taxpayers identified.</p>
End Result	Strategies to Achieve End Result
<p>B: Maximize the value of the funds under the stewardship of the Treasury Division.</p> <p><u>Target #1:</u> For the funds under the fiduciary responsibility of the Commissioner of Revenue, exceed the applicable 1-year target returns.</p> <p><u>Status #1:</u> During FY2008, returns for 2 of the 9 funds under the fiduciary responsibility of the Commissioner of Revenue exceeded the applicable 1-year target returns.</p>	<p>B1: Portfolio Investment Officer staff is continually upgraded in experience and education.</p> <p><u>Target #1:</u> Increase average longevity of the investment officers to 5 years.</p> <p><u>Status #1:</u> The average longevity of the Treasury investment officers during FY2008 was 4.2 years, a reduction from the prior year due to staff turnover.</p> <p><u>Target #2:</u> At least 4 investment staff will have their</p>

	Chartered Financial Analyst (CFA) designation. Status #2: In FY2008, five members of the Treasury investment staff have their Chartered Financial Analyst designation. This exceeds the Treasury Division's target of four.
End Result	Strategies to Achieve End Result
<p>C: All eligible Alaskans, whose applications are not on appeal, receive their Permanent Fund Dividend (PFD) in October or November.</p> <p>Target #1: 100% of eligible applicants not on appeal are paid in October (by direct deposit) or November (by warrant).</p> <p>Status #1: 98.9% of eligible Permanent Fund Dividend applicants not on appeal were paid in October (by direct deposit) or November (by warrant) for the 2007 dividend payment.</p>	<p>C1: Provide PFD staff with needed training to perform effectively.</p> <p>Target #1: 100% of new staff receive standardized training within first three months of employment with PFD.</p> <p>Status #1: During 2007, 100% of new staff received standardized training within the first three months of employment with PFD.</p> <p>C2: Maximize use of PFD staff for eligibility and public response throughout the cycle.</p> <p>Target #1: 100% of non-managerial eligibility staff are cross-trained to work in all functional areas of eligibility and public response.</p> <p>Status #1: During 2007, 100% of non-managerial eligibility staff were cross-trained to work in all functional areas of eligibility and public response.</p> <p>C3: Increase use by the public of PFD online filing and applicant support services.</p> <p>Target #1: Increase the percentage of PFD applications filed online each year.</p> <p>Status #1: During 2008, 70.7% of PFD applications were filed online, an increase of 4.1% over the previous year.</p>
End Result	Strategies to Achieve End Result
<p>D: Collection and distribution of child support due to the children served by Child Support Services Division.</p> <p>Target #1: Increase collections by 3%, net of Permanent Fund Dividend collections.</p> <p>Status #1: FY2008 collections net of Permanent Fund Dividends increased 3.25% over FY2007.</p>	<p>D1: Improve the environment necessary for increased child support collections.</p> <p>Target #1: Ensure that paternities established are at least 100%.</p> <p>Status #1: The percentage of paternities established in FFY08 was 95%, an increase of 4% from the prior year.</p> <p>Target #2: Increase cases with orders to 93.5%.</p> <p>Status #2: The division has increased cases with orders by 0.2% over the prior fiscal year.</p> <p>Target #3: Increase current collections to 56%.</p> <p>Status #3: Current collections for FFY08 are at 58.1%, an increase from the prior year of 1.5%.</p> <p>Target #4: Increase number of cases with arrearage collections to 71%.</p>

	<p>Status #4: The percentage of cases with collections on arrearages for FFY08 was 67.9%, an increase from the prior year by 1%.</p> <p>Target #5: Ensure that the cost effectiveness ratio is at least \$4.10.</p> <p>Status #5: The cost effectiveness ratio for FFY08 is \$4.75, an increase of \$0.34 from the prior year.</p> <p>Target #6: Reduce cases with no collections for one year or more to 12% or less of cases eligible for collections.</p> <p>Status #6: Cases with no collections for one year or more was 11.78% in FY2008, a decrease of 0.45% from FY2007.</p>
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Major Activities to Advance Strategies

- **TAX DIVISION:**
- Enforce tax compliance through audit; focus tax examination activity on high risk returns and errors; and streamline the tax examination process.
- **TREASURY DIVISION:**
- Define roles of potential new asset class managers; perform adequate due diligence; and automate download of accounting data.
- **PERMANENT FUND DIVISION:**
- Cross train staff to work in multiple functional areas and allocate staff across unit lines to address peak workload.
- **CHILD SUPPORT SERVICES:**
- Improve communications, processes and interface with other states; and establish and train a special collections unit.
- Establish paternity; inform obligees of accurate amounts due; and locate employers and assets of non-custodial parents.

FY2010 Resources Allocated to Achieve Results

FY2010 Department Budget: \$270,142,600

Personnel:

Full time	867
Part time	41
Total	908

Performance

A: Result - Maximize compliance with current tax and gaming statutes.

Target #1: Percentage of taxes collected compared to taxes due between 92% and 98%.

Status #1: Taxes collected compared to taxes due has been between 96% and 105% in the past five years and in FY2008 was 98.5%. This measure is not indicative of our compliance efforts as it is skewed by the fact that our largest taxpayers are paying their taxes, but smaller taxpayers may not be. This measure will be changed in FY2009 to better reflect the compliance of our entire taxpayer base across all tax types.

Taxes Collected Compared to Taxes Due

Fiscal Year	% of Taxes Collected
FY 2008	98.5%
FY 2007	105.4%
FY 2006	96.0%
FY 2005	98.6%
FY 2004	99.7%

Analysis of results and challenges: This percentage is driven primarily by payment of taxes due by Alaska's largest taxpayers and is not indicative of the Division's compliance efforts or taxpayers' compliance with Alaska's tax laws as a whole. Without the ability to reasonably estimate the amount of unreported taxes due to the state and without looking at the entire taxpayer base, this percentage is meaningless as a way to measure the Division's compliance efforts. In FY 2008, most of the largest taxpayers who account for the greatest percentage of the state's revenue paid taxes owed to the state. Although slightly outside the target range, the division met the FY2008 goal. However, as stated above, this does not provide any feedback regarding our compliance activities. As such, the Division will reassess this performance measure for FY 2009 and future years and come up with a more realistic and meaningful method of measuring our success in tax and gaming compliance.

Target #2: 90% of existing taxpayers file their tax returns and make tax payments timely. This is a new target; data will be reported at the end of FY2009.

Status #2: Not Available

Analysis of results and challenges: The Tax Division's primary function is to encourage voluntary compliance by all taxpayers across all tax programs. This is achieved in a variety of ways, i.e. taxpayer education and outreach programs, compliance activities where we actively look for nonfilers, and collection activities. Taxpayers are more apt to voluntarily comply if they believe that everyone else is paying their fair share and the Division makes it relatively easy to file returns and pay taxes. As such, the most effective way to measure our performance is to look at the percentage of known taxpayers who timely file their returns and pay their taxes.

A1: Strategy - Increase tax audit coverage (audit activities improve compliance and revenue).

Target #1: Open 20 new audit cases (taxpayers that have not been audited by us in the prior five years).

Status #1: Seventy-eight new audit cases were opened in FY2008 due to an increase in audit staff. These audits will be worked throughout FY2009 in addition to maintaining a target of 20 new audits for that year.

Number of New Audit Cases Opened

Fiscal Year	# of Audit Cases
FY 2008	78
FY 2007	42
FY 2006	5
FY 2005	14
FY 2004	7

Analysis of results and challenges: The Tax Division maintains 100% coverage in oil and gas income and production taxes (and new oil and gas audit subjects are not included in this measure). An audit presence in each of the other tax types improves long-term voluntary compliance as well as generates new audit revenues. Furthermore, once established, audit generated revenues tend to recur as taxpayers modify their reporting to become consistent with the audit findings. Not included in the new audit count are audits of exploration tax credit claims by existing taxpayers. These audits do not meet our definition of "new audits" although they represent new and expanded audit efforts by the division. We exceeded our goal in FY 2008 as a result of new and stable audit staff in the Corporate and Excise tax units. We also limited the scope on several audits, choosing to look at several taxpayers with similar audit issues as opposed to conducting a full audit of a few taxpayers. Limited scope audits not only allow us to audit more taxpayers, but they also allow us to focus on audit issues that have a greater return to the State.

We view twenty new audit subjects annually as an appropriate target and this remains our goal for FY2009.

A2: Strategy - Increase voluntary tax compliance from identifying non-filers.

Target #1: Find 30 non-filers through compliance work.

Status #1: Approximately 309 new taxpayers were identified in FY2008. Most of the new taxpayers were identified through compliance work in the mining license tax. In FY2009 our focus will be on the number of compliance activities conducted versus the number of new taxpayers identified.

New Filers through Compliance

Fiscal Year	# of New Filers
FY 2008	309*
FY 2007	977*
FY 2006	900*
FY 2005	45
FY 2004	38

*Methodology: *Internet tobacco tax compliance project yielded 700 new taxpayers in FY2006 and 868 new taxpayers in FY2007. In FY2008, we discovered several hundred additional tobacco tax taxpayers. However, those taxpayers are not included in the FY2008 numbers as this is an ongoing project that continues to find new taxpayers each year and skews the target for other tax types.*

Analysis of results and challenges: The Tax Division encourages voluntary compliance as the most effective tool for collecting tax revenues. An important aspect of voluntary compliance is for taxpayers to believe that they are paying about the same amount in taxes as other similarly situated taxpayers. Seeking out and finding new taxpayers and bringing them into compliance assists revenue both in long-term voluntary compliance as well as bringing in the revenues from the new taxpayers. The division does not believe there are any major oil and gas taxpayers not filing, but we are pursuing the tax types that constitute the other 20% of its revenue responsibilities. This target and measure does not include federal or multi-state compliance programs in which we currently participate.

In FY2007 and FY2008, we conducted a major taxpayer education and compliance effort with the assistance of the Department of Natural Resources in the mining license tax program. Our efforts resulted in over 250 new taxpayers in this tax type in FY2008. Although identifying non-filers is an important function of the Division, the number of non-filers identified is not as important as the number of compliance projects initiated. Therefore, in the future, our goal will be to initiate a specific number of compliance projects as opposed to generating new taxpayers.

B: Result - Maximize the value of the funds under the stewardship of the Treasury Division.

Target #1: For the funds under the fiduciary responsibility of the Commissioner of Revenue, exceed the applicable 1-year target returns.

Status #1: During FY2008, returns for 2 of the 9 funds under the fiduciary responsibility of the Commissioner of Revenue exceeded the applicable 1-year target returns.

One-year Return Data for Funds Managed by the Treasury Division

Fiscal Year	Fund	Actual Return	Target Return
FY 2008	Gen Fund/Other Non-segregated F	5.85%	6.47%
FY 2008	AK Children's Trust Fund	(8.83%)	(8.34%)
FY 2008	Public School Trust Fund	(2.75%)	(1.99%)
FY 2008	Int'l Airports Revenue Fund	6.92%	7.91%
FY 2008	Const Budg Resv Fund-Main Acc	6.60%	7.54%
FY 2008	Const Budg Resv Fund-Sub Acc	(10.67%)	(4.74%)
FY 2008	Retirement Hlth Ins Fund-Longter	(5.83%)	(6.10%)
FY 2008	Retirement Hlth Ins Fund-Maj Med	2.71%	3.16%
FY 2008	Power Cost Equalization Fund	(4.79%)	(5.50%)

Methodology: FY2008 one-year return data is for the period 7/1/2007 through 6/30/2008.

Analysis of results and challenges: A combination of investments that is expected to produce the highest investment return for a given amount of risk is known as "point on the efficient frontier." Each fiduciary for a fund reviews points on the efficient frontier and selects the combination of investments consistent with their appetite for risk and returns of the fund. This selection is known as the target return.

Target returns assume the earnings of passively managed indexes invested in the same proportions as the assets at the corresponding point on the efficient frontier. A fund will exceed the target rate of return if the amount of money invested matches the asset allocation or are overweighted to higher earning assets at that point on the efficient frontier and the investment managers earn more than their benchmark index. Conversely, returns will be less if the manager underperforms their benchmark or if assets were not allocated to overweight higher performing asset classes.

In FY2008, Treasury securities were the higher performing asset class within the funds. Since the composition of assets within the funds managed included less Treasury securities than the benchmark targets, the funds managed had less earnings than the benchmark target.

B1: Strategy - Portfolio Investment Officer staff is continually upgraded in experience and education.

Target #1: Increase average longevity of the investment officers to 5 years.

Status #1: The average longevity of the Treasury investment officers during FY2008 was 4.2 years, a reduction from the prior year due to staff turnover.

Average Longevity of Investment Staff

Fiscal Year	Number of Years
FY 2008	4.2 years
FY 2007	4.6 years
FY 2006	3.8 years
FY 2005	2.8 years
FY 2004	2.6 years

Analysis of results and challenges: A seasoned investment staff contributes to improved investment performance. Over the past four years, investment performance relative to other public pension funds has markedly improved.

Target #2: At least 4 investment staff will have their Chartered Financial Analyst (CFA) designation.

Status #2: In FY2008, five members of the Treasury investment staff have their Chartered Financial Analyst designation. This exceeds the Treasury Division's target of four.

Number of Staff Holding CFA Designation

Fiscal Year	Number of Staff
FY 2008	5
FY 2007	5
FY 2006	4
FY 2005	4
FY 2004	3

Analysis of results and challenges: The Chartered Financial Analyst (CFA) designation takes a minimum of three years to obtain. Investment returns have steadily improved, as has the average longevity of the investment staff and their individual progress towards obtaining CFA designations.

C: Result - All eligible Alaskans, whose applications are not on appeal, receive their Permanent Fund Dividend (PFD) in October or November.

Target #1: 100% of eligible applicants not on appeal are paid in October (by direct deposit) or November (by warrant).

Status #1: 98.9% of eligible Permanent Fund Dividend applicants not on appeal were paid in October (by direct deposit) or November (by warrant) for the 2007 dividend payment.

Eligible Applicants Paid in October or November

Year	Percentage Paid
2007	98.9%
2006	99.6%
2005	96.0%
2004	94.0%
2003	93.7%

Methodology: Based on calendar year; 2008 data will be reported in January, 2009.

Analysis of results and challenges: The division exceeded the goal of 98% set for 2007. This can be attributed to additional increases in on-line filing, increased use of automation in processing, cross-utilization of staff, and implementation of the new Dividend Application Information System (DAIS II).

C1: Strategy - Provide PFD staff with needed training to perform effectively.

Target #1: 100% of new staff receive standardized training within first three months of employment with PFD.

Status #1: During 2007, 100% of new staff received standardized training within the first three months of employment with PFD.

Standardized Training of Staff Within First Three Months

Year	% of Staff Trained
2007	100%
2006	100%
2005	100%
2004	50%

Methodology: Based on calendar year; 2008 data will be reported in January, 2009.

Analysis of results and challenges: Standardized training was developed and implemented between December 2003 and January 2004. This training is proving to be effective for all staff and is updated with each session taught. All new employees were given this training in 2007.

C2: Strategy - Maximize use of PFD staff for eligibility and public response throughout the cycle.

Target #1: 100% of non-managerial eligibility staff are cross-trained to work in all functional areas of eligibility and public response.

Status #1: During 2007, 100% of non-managerial eligibility staff were cross-trained to work in all functional areas of eligibility and public response.

Staff Trained to Work in Other Functional Areas

Year	% of Staff
2007	100%
2006	100%
2005	100%
2004	75%

Methodology: Based on calendar year; 2008 data will be reported in January, 2009.

Analysis of results and challenges: The new PFD job classification scheme is based on cross-training of all technical staff. Unit lines were eliminated January 1, 2008. Eligibility and public response is being performed by all technicians, and each functional area (i.e. phones, email, eligibility) is being resource allocated according to division needs.

C3: Strategy - Increase use by the public of PFD online filing and applicant support services.

Target #1: Increase the percentage of PFD applications filed online each year.

Status #1: During 2008, 70.7% of PFD applications were filed online, an increase of 4.1% over the previous year.

Applicants Using Online Filing

Year	% of Online Filers	% Change from Prior Year
2008	70.7%	4.1%
2007	66.6%	9.5%
2006	57.1%	23.1%
2005	34.0%	8.8%
2004	25.2%	0.3%
2003	24.9%	10.9%
2002	14.0%	--

Analysis of results and challenges: The number of PFD applicants using online filing continues to increase annually.

D: Result - Collection and distribution of child support due to the children served by Child Support Services Division.

Target #1: Increase collections by 3%, net of Permanent Fund Dividend collections.

Status #1: FY2008 collections net of Permanent Fund Dividends increased 3.25% over FY2007.

Percent Change in Total Collections for a Fiscal Year

Fiscal Year	% Change
FY 2008	3.25%
FY 2007	3.66%
FY 2006	3.72%
FY 2005	1.92%
FY 2004	4.2%
FY 2003	6.2%

Analysis of results and challenges: FY2008 collections net of Permanent Fund Dividends increased 3.25% over FY2007. While this increase was more than projected, over \$1 million was the result of the one time federal economic stimulus program without which the increase would have only been 2.2%. This would represent a decrease from FY2007, the result of the difficulty in maintaining a stable workforce.

D1: Strategy - Improve the environment necessary for increased child support collections.

Target #1: Ensure that paternities established are at least 100%.

Status #1: The percentage of paternities established in FFY08 was 95%, an increase of 4% from the prior year.

Percentage of Paternities Established

Fiscal Year	% Established
FFY 2008	95%
FFY 2007	91%
FFY 2006	98%
FFY 2005	105%
FFY 2004	87%

Analysis of results and challenges: Percentage of paternities established is measured by the federal government by taking the number of children statewide with paternity established or acknowledged in the current fiscal year (3,829 in FFY08) divided by the number of children born out of wedlock statewide for the prior fiscal year (4,047 in FFY07), which is 95%.

The number of paternities established since FFY 2005 has decreased, however the number of cases in the division needing paternity established has also decreased. This indicates that contingent factors out of the division's control are contributing to this decline; for instance, if the cases are still working their way through the court system or there is no attempt made by the family to establish paternity.

Target #2: Increase cases with orders to 93.5%.

Status #2: The division has increased cases with orders by 0.2% over the prior fiscal year.

Percentage of Cases with Orders

Fiscal Year	Cases with Orders	Change from Prior Year
FY 2008	93.9%	0.2%
FY 2007	93.7%	0.5%
FY 2006	93.2%	0.9%
FY 2005	92.3%	7.6%
FY 2004	84.7%	3.7%

Analysis of results and challenges: A case is eligible for collection when a court or administrative order has been established. Collections cannot be made without a proper order in place. Establishing this quickly and effectively is one of the keys to a successful child support program. Reviewing and streamlining the division's process in establishing orders will aid in the timeliness of collecting and distributing child support. The division continues to

improve in this measure each year.

Target #3: Increase current collections to 56%.

Status #3: Current collections for FFY08 are at 58.1%, an increase from the prior year of 1.5%.

Percentage of Current Collections

Fiscal Year	% of Collections
FFY 2008	58.1%
FFY 2007	56.6%
FFY 2006	54.9%
FFY 2005	52.0%
FFY 2004	54.2%

Analysis of results and challenges: In addition to being a main component of any child support program, collecting current money due is crucial to the financial well-being of the children it is intended to benefit. Increased information systems for new hires with the federal government and Alaska employers will enhance our ability to streamline the withholding process, improving the overall ability to collect current support quickly.

Target #4: Increase number of cases with arrearage collections to 71%.

Status #4: The percentage of cases with collections on arrearages for FFY08 was 67.9%, an increase from the prior year by 1%.

Percentage of Cases with Arrearage Collections

Fiscal Year	% of Cases
FFY 2008	67.9%
FFY 2007	66.9%
FFY 2006	66.5%
FFY 2005	67.9%
FFY 2004	65.4%

Analysis of results and challenges: A higher concentration on cases with special collection needs will help the division to increase overall collections. CSSD, through a grant with the Department of Justice, assembled a team to focus on those cases that are hard to collect. This special collections program began in October, 2005 and ended in October, 2007. The division is continuing the important work of the special collections unit and we expect to continue to see improved results in this area.

Target #5: Ensure that the cost effectiveness ratio is at least \$4.10.

Status #5: The cost effectiveness ratio for FFY08 is \$4.75, an increase of \$0.34 from the prior year.

Cost Effectiveness Ratio

Fiscal Year	Ratio
FFY 2008	\$4.75
FFY 2007	\$4.41
FFY 2006	\$4.24
FFY 2005	\$4.52
FFY 2004	\$4.42

Analysis of results and challenges: The cost effectiveness ratio for FFY08 is \$4.75, which is an increase of \$0.34 from the prior year. This means that for every \$1.00 spent in operating dollars the division collected \$4.75 in child support.

Two components, expenses and collections, figure into this target. Overall, showing the highest possible amount of

collections for the least amount spent is highly sought. The increase in our cost effectiveness for FFY08 is a direct result of increased collections for that period due in part to the economic stimulus checks as well as an increased permanent fund dividend. However, in order to continue to maintain a high level of cost effectiveness the division must be able to increase collections by approximately four and one-half times more than the increase in expenses.

Additionally, CSSD anticipates that FFY09 and FFY10 could see a decline in our cost effectiveness. As the cost of doing business continues to increase, the amount of these increases in expenditures significantly outpaces our ability to increase collections, resulting in lower cost effectiveness.

Target #6: Reduce cases with no collections for one year or more to 12% or less of cases eligible for collections.

Status #6: Cases with no collections for one year or more was 11.78% in FY2008, a decrease of 0.45% from FY2007.

Cases With No Collections for 1 Year or More

Fiscal Year	Percentage of Cases	Change from Prior Year
FY 2008	11.78%	-0.45%
FY 2007	12.23%	-0.41%
FY 2006	12.64%	-0.28%
FY 2005	12.92%	-10.08%
FY 2004	23%	NA

Analysis of results and challenges: A case is eligible for collection when a court or administrative order has been established. In FY2008, 93.9% of the division's cases had orders, leaving 6.1% without orders and therefore ineligible for collection.

An analysis of outstanding child support collections showed a relationship between those cases with the highest outstanding balances and those with no recent collections. A portion of the cases with no collections for one year or more are designated as "hard to collect" and are assigned to a specialized team of child support specialists. FY2008 is the fourth consecutive year that the percentage of cases with no collections has decreased relative to the prior year. This is the result of continued work by the special collections unit on extremely difficult to enforce cases.

Key Department Challenges

- To contribute to efforts to start large-scale natural gas development in Alaska and commercialization of North Slope natural gas reserves, in particular, through the governor's Alaska Gasline Inducement Act (AGIA).
- To provide key decision makers (governor and legislature) with the information necessary to adopt a fiscal plan to insure that the State of Alaska has the financial resources necessary to provide constitutionally required public services in an era of volatile oil prices and declining production.
- Estimating oil and gas revenues in light of the highly volatile oil and gas market coupled with uncertainties in the U.S. economy.
- Key debt issues include maintenance of the State of Alaska's credit ratings with Standard and Poor's, Fitch Ratings, and Moody's Investors Service. Regular communication of state current events to the rating analysts as well as ensuring analysts' concerns are relayed to the state's leadership are key to meeting this challenge.
- Due to failure of the nation's fourth and fifth largest investment banks as well as the government takeover of mortgage giants FNMA and FHLMC (Fannie Mae and Freddie Mac), a lack of confidence has developed in the nation's financial system. The price of many financial instruments has plummeted, creating a challenge to maintain liquidity without selling assets at distressed prices.
- Over the past year, the assets in the General Fund and the Constitutional Budget Reserve Fund have nearly doubled. The increase in assets under management along with the complexity of managing multiple investment mandates will create new investment challenges.

- Record Permanent Fund Dividend (PFD) amounts have increased public interest in the dividend program, driving the total number of applications above average in the past two fiscal years. In 2008, 15,000 additional applicants filed for the dividend. The subsequent increase in applicant information gathering, fraud tips, and appeals has increased public contact to its highest level since the inception of the program. The PFD Division will continue to use technology improvements to process approximately 650,000 applications and another 1.5 million supporting documents annually. However, this increase in applications and public contact will prove to be a key challenge in communication costs, resource allocation, and timely payments.
- The Child Support Services Division continues work on implementing federal medical support regulations which were published in July 2008. Legislation is currently being drafted to address these federal regulations.

Significant Changes in Results to be Delivered in FY2010

- The Tax Division will work to streamline its examination, audit, appeals, reporting and accounting functions by identifying and computerizing all manual processes and incorporating all functions into one integrated system. In doing so, the end result of maximizing compliance with tax and gaming statutes will be furthered by providing accurate and timely tax data for management and audit purposes, and focusing staff time on accomplishing the mission of the division, to collect state taxes.
- In the Treasury Division, Asset Accounting's continued efforts to automate the financial statement preparation process will result in financial statements for all funds and trusts published online within ten business days after the end of each month.
- All Alaskans will receive a new pamphlet notifying them of how and where to apply online for the 2009 Permanent Fund Dividend. Simultaneously, the PFD application booklet will be mailed only to community distribution centers and will be available for those applicants who prefer a paper application. This change should bolster our efforts to move over 75% of all applicants to online filing, and will significantly reduce paper waste.
- In the Child Support Services Division, implementation of online financial statements made accessible through MyAlaska will be available to clients in fiscal year 2009. This online secure tool will allow custodial and noncustodial parents to access financial information on their child support case via a computer. The division anticipates very positive feedback from our clients as they will no longer have to contact customer service or their caseworker, nor will they have to wait for their statement to be mailed to them each month. This significant change in results is taking place in mid to late fiscal year 2009. The majority of these results will be seen in 2010.

Major Department Accomplishments in 2008

- The Tax Division assisted the governor in the drafting and passage of Alaska's Clear and Equitable Share (ACES) legislation – the new oil and gas production tax designed to provide Alaska its fair share of oil and gas revenues while providing incentives for future exploration and production activities in the state.
- The Tax Division completed a compliance project for sand and gravel mining license tax, and developed and presented a mining license tax course for the Alaska Miners Association conferences held in Anchorage and Fairbanks.
- Since the end of FY2004, the State of Alaska has maintained a stable credit rating. Agency credit ratings affect the state's ability to borrow money at favorable interest rates.
- A \$1,200 resource rebate was successfully added to the 2008 Permanent Fund Dividend for all eligible paid applicants.
- Online applications for the Permanent Fund Dividend continued to increase, from 66% in 2007 to 70% in 2008.

- The Child Support Services Division increased yearly collections by \$6.0 million. This increase is the result of the federal economic stimulus payment, higher permanent fund dividend, and increases in additional ongoing support collections. Total collections in FY2008 were \$112.3 million. Collections from Permanent Fund Dividends increased by approximately \$2.9 million. Of the total collections for FY2008, \$12.7 million was collected in TANF reimbursement for the State of Alaska and the federal government, \$1.9 million was collected for reimbursement of foster care, and \$97.7 million was collected for families.

Prioritization of Agency Programs

(Statutory Reference AS 37.07.050(a)(13))

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| 1. Tax Division | 8. Alaska Permanent Fund Corporation |
| 2. Treasury Management | 9. Alaska Retirement Management Board |
| 3. Child Support Services Division | 10. Alaska Housing Finance Corporation |
| 4. Permanent Fund Dividend Division | 11. Alaska Municipal Bond Bank Authority |
| 5. Commissioner's Office | 12. Alaska Mental Health Trust Authority |
| 6. Administrative Services Division | 13. Alaska Natural Gas Development Authority |
| 7. Natural Gas Commercialization | |

Contact Information

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Department Budget Summary by RDU

All dollars shown in thousands

	FY2008 Actuals				FY2009 Management Plan				FY2010 Governor			
	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds	General Funds	Federal Funds	Other Funds	Total Funds
Formula Expenditures None.												
Non-Formula Expenditures												
Taxation and Treasury	39,122.2	0.0	45,516.5	84,638.7	760,489.1	0.0	66,503.0	826,992.1	17,114.0	0.0	63,772.7	80,886.7
Child Support Services	174.7	15,267.5	6,643.9	22,086.1	174.7	17,202.5	7,322.8	24,700.0	2,074.7	17,632.6	5,643.5	25,350.8
Administration and Support	876.0	1,147.9	1,062.9	3,086.8	2,029.1	1,260.6	805.4	4,095.1	1,618.3	1,260.6	835.4	3,714.3
AK Natural Gas Dev Authority	681.3	0.0	29.3	710.6	305.3	0.0	0.0	305.3	312.1	0.0	0.0	312.1
Mental Health Trust Authority	106.4	0.0	2,537.5	2,643.9	107.0	0.0	2,936.1	3,043.1	121.7	0.0	3,086.5	3,208.2
AK Municipal Bond Bank Auth	0.0	0.0	558.6	558.6	0.0	0.0	826.0	826.0	0.0	0.0	828.1	828.1
Alaska Housing Finance Corp	0.0	17,231.7	29,256.3	46,488.0	0.0	18,751.3	32,877.2	51,628.5	0.0	20,695.1	32,951.1	53,646.2
AK Permanent Fund Corporation	0.0	0.0	79,003.0	79,003.0	0.0	0.0	102,063.1	102,063.1	0.0	0.0	102,196.2	102,196.2
Totals	40,960.6	33,647.1	164,608.0	239,215.7	763,105.2	37,214.4	213,333.6	1,013,653.2	21,240.8	39,588.3	209,313.5	270,142.6

Funding Source Summary

All dollars in thousands

Funding Sources	FY2008 Actuals	FY2009 Management Plan	FY2010 Governor
1001 Constitutional Budget Reserve Fund	466.9	4,325.7	1,673.0
1002 Federal Receipts	30,699.2	34,153.8	36,527.7
1003 General Fund Match			1,900.0
1004 General Fund Receipts	40,207.6	762,331.0	18,540.5
1005 General Fund/Program Receipts	753.0	774.2	800.3
1007 Inter-Agency Receipts	5,854.4	5,384.1	5,402.4
1016 CSSD Federal Incentive Payments	1,800.0	1,800.0	1,800.0
1017 Benefits Systems Receipts	134.0	199.0	728.9
1027 International Airport Revenue Fund	82.4	83.3	31.9
1029 Public Employees Retirement System Fund	22,995.9	32,501.1	32,494.5
1034 Teachers Retirement System Fund	10,498.8	16,370.2	16,364.9
1042 Judicial Retirement System	181.0	428.5	428.5
1045 National Guard & Naval Militia Retirement System	24.2	251.9	251.9
1046 Student Revolving Loan Fund	43.4	97.1	54.9
1050 Permanent Fund Dividend Fund	6,879.3	7,101.0	7,404.9
1061 Capital Improvement Project Receipts	977.0	2,042.4	2,116.5
1066 Public School Fund	148.8	235.6	104.4
1094 Mental Health Trust Administration	2,144.2	2,499.6	2,650.0
1098 Children's Trust Earnings	40.7	41.2	15.2
1103 Alaska Housing Finance Corporation Receipts	27,460.9	30,205.8	30,155.6
1104 Alaska Municipal Bond Bank Receipts	558.6	826.0	828.1
1105 Alaska Permanent Fund Corporation Receipts	79,080.1	102,142.3	102,278.3
1108 Statutory Designated Program Receipts		792.5	465.9
1133 CSSD Administrative Cost Reimbursement	1,147.9	1,260.6	1,260.6
1142 Retiree Health Ins Fund/Major Medical	101.8	113.0	
1143 Retiree Health Ins Fund/Long-Term Care Fund	79.3	99.7	
1156 Receipt Supported Services	6,657.5	7,358.6	5,679.3
1169 PCE Endowment Fund	198.8	211.0	160.4
1192 Mine Reclamation Trust Fund		24.0	24.0
Totals	239,215.7	1,013,653.2	270,142.6

Position Summary

Funding Sources	FY2009 Management Plan	FY2010 Governor
Permanent Full Time	875	867
Permanent Part Time	50	41
Non Permanent	17	17
Totals	942	925

FY2010 Capital Budget Request

Project Title	General Funds	Federal Funds	Other Funds	Total Funds
Tax Revenue Management System	0	0	23,429,200	23,429,200
Upgrade NetApp System	418,600	0	0	418,600
Child Support Services Computer Replacement Project - Phase 5	0	142,692	73,508	216,200
Permanent Fund Dividend Division Computer Replacement Project - Phase 5	0	0	119,500	119,500
Permanent Fund Dividend Division Call Center Automated Routing	0	0	135,000	135,000
SQL Database Evaluation	175,000	0	0	175,000
Permanent Fund Corporation Investment Portfolio Accounting and Reporting System	0	0	500,000	500,000
AHFC Housing Loan Program/Teacher/Health and Public Safety Professionals Housing	0	0	8,000,000	8,000,000
AHFC Supplemental Housing Development Program	0	0	10,000,000	10,000,000
AHFC Weatherization Program	0	2,000,000	0	2,000,000
AHFC Senior Citizens Housing Development Program	0	0	7,500,000	7,500,000
AHFC Fire Protection Systems - Phase I	0	0	3,450,000	3,450,000
AHFC Security Systems Replacement/Upgrades	0	0	750,000	750,000
AHFC Building System Replacement Program	0	0	2,500,000	2,500,000
AHFC Housing and Urban Development Federal HOME Grant	0	3,300,000	750,000	4,050,000
AHFC Housing and Urban Development Capital Fund Program	0	3,200,000	0	3,200,000
AHFC Federal and Other Competitive Grants	0	3,000,000	1,500,000	4,500,000
AHFC Competitive Grants for Public Housing	0	750,000	250,000	1,000,000
AHFC Energy Efficiency Monitoring Research	0	0	2,000,000	2,000,000
AHFC State Energy Program Special Projects	0	150,000	50,000	200,000
AHFC Statewide Project Improvements	0	0	3,000,000	3,000,000
AHFC Loussac Manor Renovation and Replacement - Phase 3	0	0	8,492,500	8,492,500
AHFC Denali Commission Projects	0	5,000,000	0	5,000,000
AHFC Statewide Energy Improvements	0	0	5,000,000	5,000,000
AHFC Statewide ADA Improvements	0	0	500,000	500,000
AHFC Birch Park II Building (B) Reconstruction	0	640,000	800,000	1,440,000
MH AHFC Homeless Assistance Program	500,000	2,000,000	7,500,000	10,000,000
MH AHFC Beneficiary and Special Needs Housing	0	0	1,750,000	1,750,000
MH AHFC Emergency Assistance Grants for Mental Health Trust Beneficiaries	0	0	200,000	200,000
Alaska Gas Spur Line	0	0	5,000,000	5,000,000
Department Total	1,093,600	20,182,692	93,249,708	114,526,000

This is an appropriation level summary only. For allocations and the full project details see the capital budget.

Summary of Department Budget Changes by RDU

From FY2009 Management Plan to FY2010 Governor

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2009 Management Plan	763,105.2	37,214.4	213,333.6	1,013,653.2
Adjustments which will continue current level of service:				
-Taxation and Treasury	-744,202.1	0.0	-8.1	-744,210.2
-Child Support Services	1,900.0	430.1	-1,682.3	647.8
-Administration and Support	-1,181.8	0.0	30.0	-1,151.8
-AK Natural Gas Dev Authority	6.8	0.0	0.0	6.8
-Mental Health Trust Authority	14.7	0.0	-2,499.6	-2,484.9
-AK Municipal Bond Bank Auth	0.0	0.0	2.1	2.1
-Alaska Housing Finance Corp	0.0	933.2	-129.6	803.6
-AK Permanent Fund Corporation	0.0	0.0	59.0	59.0
Proposed budget decreases:				
-Taxation and Treasury	0.0	0.0	-4,325.7	-4,325.7
Proposed budget increases:				
-Taxation and Treasury	827.0	0.0	1,603.5	2,430.5
-Child Support Services	0.0	0.0	3.0	3.0
-Administration and Support	771.0	0.0	0.0	771.0
-Mental Health Trust Authority	0.0	0.0	2,650.0	2,650.0
-Alaska Housing Finance Corp	0.0	1,010.6	203.5	1,214.1
-AK Permanent Fund Corporation	0.0	0.0	74.1	74.1
FY2010 Governor	21,240.8	39,588.3	209,313.5	270,142.6